

ACCOUNTING

AND AUDIT

UP-TO-DATE ISSUES RELATED TO APPLYING THE NEW ACCOUNTANCY ACT¹

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Abstract: The application of Directive 2013/34/EU of the European Parliament and of the Council on annual financial statements, consolidated financial statements, and related reports of certain types of undertakings² required the introduction of some changes in current accounting regulations in Bulgaria. This paper focuses on issues related to applying the new Accountancy Act and some of the contradictions which have arisen as a result.

Key words: accounting; Accountancy Act; categories of entities; applicable accounting standards; financial statements.

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Introduction

The requirements set in Directive 2013/34/EU were introduced into Bulgarian accounting legislation to reduce accounting workload for small and medium-sized enterprises. This involved a number of major changes. It was therefore more appropriate to design a new Accountancy Act, rather

¹ The authors' contribution to this Art. is as follows: Assoc. Prof. Stanislav Alexandrov – Part Two and Conclusion; Assistant Galya Georgieva – Introduction and Part One.

² **Direktiva 2013/34/ES** na Evropeyskiya parlament i na saveta ot 26 yuni 2013. Ofitsialen vestnik na ES, L 182 / 29.06.2013 // <<http://eur-lex.europa.eu>>

than amend or supplement the revoked act³. The new Accountancy Act was adopted by the 43rd National Assembly on 24th November 2015. It was promulgated in the State Gazette, Darzhaven Vestnik (DV), No. 95 of 8th December 2015 and became effective on 1st January 2016, except for Articles 48 to 52 that refer to the preparation of non-financial declarations and shall become effective on 1st January 2017. The new law partially reduces administrative burden and prescribes the rules and procedures for accounting reporting. The object of this research is accounting legislation; the subject relates to the new moments in applying the Accountancy Act in terms of its structure and content. The objective of the paper is to outline newly introduced changes and to identify some contradictions which new legal requirements pose for each category of entities.

* * *

I. The new Accountancy Act is different from the one which was effective till 31st December 2015 not only in terms of its content, but also in terms of its structure (see Table 1).

The Accountancy Act which is effective from 1st January 2016 consists of nine chapters, some of which consist of sections. New chapters have been introduced and some of the chapters which were present in the revoked act have been included as sections in the new one, while others have been totally amended.

Chapter One, 'General Provisions', consists of six sections. It refers to issues such as: the scope of application of the act; current reporting; the nature and types of accounting documents, as well as their requisites and the requirements to their preparation and supporting documents; the rules and terms for safekeeping accounting information; the powers of the Minister of Finance; the rights and duties of entity managers; drawers of financial statements. Major amendments and newly introduced elements in this part of the act include:

³ **Zakon za schetovodstvoto.** V sila ot 01.01.2002, obn. DV, br. 98/16.11.2001, posl. izm. i dop. DV, br. 100/19.11.2013.

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Table 1.
Structure of Both Accountancy Acts

Accountancy Act effective till 31 st December 2015	Accountancy Act effective from 1 st January 2016
Chapter One GENERAL PROVISIONS	Chapter One GENERAL PROVISIONS
Chapter Two ACCOUNTING DOCUMENTS AND FORM OF ACCOUNTING	<ul style="list-style-type: none"> • Section 1. Scope of Application • Section 2. Current Reporting, Accounting Documents, Accounting Information, and Accounting Systems • Section 3. Safekeeping Accounting Information • Section 4. Powers of the Minister of Finance • Section 5. Rights and Responsibilities of Entity Managers • Section Six. Drawers of Financial Statements
Chapter Three ASSETS, OWNERS' EQUITY, LIABILITIES, INCOME AND EXPENSES	Chapter Two CATEGORIES OF ENTITIES AND GROUPS OF ENTITIES
Chapter Four INVENTORY TAKING	<ul style="list-style-type: none"> • Section 1. Categories of Entities • Section 2. Categories of Groups of Entities
Chapter Five FINANCIAL STATEMENTS	Chapter Three FINANCIAL STATEMENTS
<ul style="list-style-type: none"> • Section 1. Applicable Accounting Standards, Contents of Financial Statements and Annual Management Reports • Section 2. Drawers of Financial Statements • Section 3. Requirements for Drawing Up Consolidated Financial Statements, Preparation, Independent Financial Audit and Public Access to Financial Statements 	<ul style="list-style-type: none"> • Section 1. General Requirements to Financial Statements • Section 2. Inventory Taking • Section 3. Annual Financial Statements • Section 4. Consolidated Financial Statements
Chapter Six SAFEKEEPING ACCOUNTING INFORMATION	Chapter Four APPLICABLE ACCOUNTING STANDARDS
Chapter Seven ADMINISTRATIVE PENAL PROVISIONS	Chapter Five INDEPENDENT FINANCIAL AUDIT
ADDITIONAL PROVISIONS	Chapter Six PUBLICATION OF FINANCIAL STATEMENTS
TRANSITIONAL AND FINAL PROVISIONS	Chapter Seven ANNUAL REPORTS
	<ul style="list-style-type: none"> • Section 1. Annual Activity Report • Section 2. Consolidated Activity Report • Section 3. Non-financial Declaration • Section 4. Consolidated Non-financial Declaration • Section 5. Report on Payments to Governments • Section 6. Consolidated Report on Payments to Governments
	Chapter Eight BUDGET ENTITIES
	Chapter Nine ADMINISTRATIVE PENAL PROVISIONS
	ADDITIONAL PROVISIONS
	TRANSITIONAL AND FINAL PROVISIONS

➤ The statutory requirement that all documents drawn in a foreign language have to be translated in Bulgarian has been revoked. Translation of documents is only required when this is prescribed by the Act (Art. 5, Para. 2). Hence, it is subject to the discretion of entities whether incoming documents drawn in a foreign language will be translated on a regular basis, or they will be translated upon request from controlling bodies;

➤ Economic operations cannot be reported in off-balance books or records. Entities are not allowed to report in their accounting documents fictitious or inadequately identified transactions; liabilities whose subject is not specified; or transactions related to bribery of officials or bribery concealment (Art. 9). In our opinion, this provision has been introduced by the legislator to reduce corruption and abuse to minimum. It is a matter of time before we can judge the efficiency of this measure;

➤ The terms prescribed for storing accounting information have been changed, too. The same periods of time are prescribed for storing payrolls (50 years); accounting ledgers and financial statements (10 years); and for all other accounting information carriers (3 years). The term for storing the documents for tax control has been changed from *'up to 5 years after the expiration of the statute of limitation for retiring the public debt certified by the documents involved'*⁴ to 10 years, and that of the documents for financial audit and other financial supervision – from *'until the execution of the internal audit and audit by the National Audit Office'*⁵ has been changed to 10 years. The new Accountancy Act clearly specifies that these terms start on 1st January of the reporting period following the reporting period which they refer to (Art. 12, Para. 1). The Act also specifies that payrolls have to be submitted to the National Insurance Institute for storage when an entity is terminated or has no legal successor (Art. 12, Para. 4);

➤ The new Accountancy Acts specifies the powers of the Minister of Finance, as well as the rights and obligations of entity managers. These are new moments and we believe that attributing powers to the Minister of Finance through the Accountancy Act is a crucial moment in accounting

⁴ **Zakon za schetovodstvo.** V sila ot 01.01.2002, obn. DV, br. 98/16.11.2001, posl. izm. i dop. DV, br. 100/19.11.2013, Chl. 42, Par. 1, T. 3.

⁵ Ibid., Art. 42, Para. 1, Point 4.

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practice, especially when changes are introduced into accounting regulations. The Act prescribes the entities authorized to express an opinion or give instructions on the application of the Accountancy Act should the new regulations cause any ambiguities (Art. 15);

➤ Entity managers are assigned with the following responsibilities: to approve the individual chart of accounts of the enterprise; to organise current accounting reports in compliance with the provisions of the Accountancy Act; to approve the form of accounting; to be in charge of the preparation, content and publication of financial statements and annual reports; to determine the frequency of preparing financial reports for management purposes; to be responsible for the conduct of independent financial audit by statutory auditors; to determine the procedure and manner for inventory taking; to be in charge of safekeeping accounting information according to the procedure and for the periods of time prescribed by the Accountancy Act; to determine the procedure and manner of handing over of accounting documents from the moment of their preparation to their submission or destruction (Art. 16, Para. 1). In our opinion, the new Act assigns too many serious responsibilities to entity managers. It would be appropriate to attribute some of them to Chief Accounting Managers and not just to the managers of enterprises, or they could bear joint responsibility;

➤ The new Accountancy Act has retained the requirements to the drawers of financial statements in terms of their education and length of employment in specified fields (Art. 18);

➤ A new moment in the Accountancy Act is the possibility given to sole proprietors⁶ applying single-entry bookkeeping and to micro-entities⁷ which have not conducted any activity over the reporting period to have their financial statements prepared by the owners of or partners in these entities (Art. 17, Para. 2). It is debatable whether this new introduction is appropriate since not all owners and/or partners have economic

⁶ Sole proprietors whose net sales revenue in the previous reporting period does not exceed BGN 50,000.

⁷ Entities which as of 31st December of the current reporting period do not exceed at least two out of these three indicators: carrying value of assets – BGN 700,000; net sales revenue – BGN 1,400,000; average number of employees in the reporting period – 10 people.

background or accounting qualifications and experience. The information provided in the financial statements of these categories of entities has to be in compliance with the requirements for the recognition and measurement of items, despite the concessions prescribed for these enterprises in the Accountancy Act. Good awareness of accounting standards is essential in this case and the question remains how reliable or accurately presented the information in the financial statements will be, if they are drawn by people who do not have the necessary qualifications.

Chapter two, 'Categories of Entities and Groups of Entities', is a new introduction into the Accounting Act. A common categorization for entities in the EU has been adopted. It defines the obligations of enterprises in terms of the preparation of annual financial statements, audit procedures, and publication of documents. The accounting standards to be applied by entities shall no longer depend on their legal form, as it has been so far, but on their size which is determined according to their net sales revenue, available assets, and the number of employees in the reporting period. The new Accountancy Act introduces four major (standard) categories of entities – micro-, small, medium-sized, and large ones (Art. 19). They shall be defined as micro-, small, medium-sized, or large entities when as of 31st December they do not exceed at least two out of the three indicators given in Table 2, and as large ones – when they do exceed at least two of the same indicators.

Table 2.
Categories of Entities

Categories	Micro entities⁸	Small entities	Medium-sized entities	Large entities
Indicators				
Carrying value of assets (BGN thousand)	700	8,000	38,000	38,000
Net sales revenue (BGN thousand)	1,400	16,000	76,000	76,000
Average number of employees in the reporting period (people)	10	50	250	250

⁸ According to Para. 3 of the Additional Provisions, 'Micro-entities shall be treated as small entities, except for the exemptions prescribed for them in this act.'

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We should note that this categorisation has not been aligned to the one made in the Small and Medium Enterprises Act⁹.

The new act also introduces the concept of *Public Interest Entities*, which we would define as an additional category of enterprises. These are entities conducting certain activities specified in Para. 1, Point 22 in the Additional Provisions of the Accountancy Act. Regardless of the category they fall into, according to the indicators presented in Table 2, 'for the purposes of this act they shall be treated as large entities, except for the applicable accounting standards'¹⁰.

In addition to the categories of entities, the Accountancy Act also defines categories of group entities – small, medium-sized, and large groups (Art. 21). They consist of a parent company and all its subsidiaries (Para. 1, Point 2 of the Additional Provisions). Those groups are defined as small or medium-sized ones when the sum of the indicators of the entities in the group according to their consolidated annual financial statements prepared as of 31st December of the current year does not exceed the thresholds for at least two out of the three indicators given in Table 3. They are defined as large groups when the thresholds of at least two out of three indicators are exceeded.

Table 3.
Categories of Group Entities

Indicators \ Categories	Small groups	Medium-sized groups	Large groups
Carrying value of assets (BGN thousand)	8,000	38,000	38,000
Net sales revenue (BGN thousand)	16,000	76,000	76,000
Average number of employees in the reporting period (people)	50	250	250

Art. 20 and Art. 22 in the Act prescribe when the category of entities or the category of group of entities may be changed, that is, when an entity

⁹ **Zakon za malkite i srednite predpriyatiya.** Obn. DV, br. 84/24.09.1999, posl. izm. i dop. DV, br. 17/01.03.2016, Chl.3.

¹⁰ **Zakon za schetovodstvoto.** V sila ot 01.01.2016, s izkliuchenie na chl. 48-52, koito vлизат v sila ot 01.01.2017, obn. DV, br. 95/08.12.2015, s. 18-35, Par. 4 ot Dopalnitelnite razporedbi.

has not matched two out of three indicators for the category over the last two reporting periods. Should an entity, or a group of entities, match the indicators of two different categories, it shall be categorised according to the indicators it matched over the latest reporting period. Hence, the category of an entity or a group of entities may be changed in 2018 at the earliest, provided that the indicators on which their category was based as of 1st January 2016 change in two consecutive years (2016 and 2017), and the entity or the group no longer meets the criteria for remaining in the same category. If, according to its indicators for the year 2016, an entity or a group of entities should fall in a different category, and in 2017 its indicators match the ones according to which its category was determined in 2016, then in 2018 the entity or the group of entities shall remain in the same category. Hence, the category of an entity or a group of entities shall only be changed provided that the values of their indicators match the ones prescribed for other groups over two consecutive years. The new category will then be determined based on the indicators in the second year.

Another interesting element is the provision of Art. 20, Para. 3 of the new Accountancy Act, according to which a public-interest entity shall no longer be treated as such in the reporting period following the period in which it ceased to meet the requirements for being defined as a public interest entity. Hence, it will not be necessary to wait until two consecutive periods have elapsed. In the year an entity ceases to meet the criteria for being classified as a public interest entity, it will still be treated as such; at the beginning of the following year, the entity will be treated as a standard one. It would be logical to determine the category of an entity based on the values of its indicators over the previous year, i.e. the last year in which it was treated as a public interest entity.

Chapter three, Financial Statements, prescribes general requirements to financial statements; the information they must contain about the entity; and the persons authorized to sign and stamp them. Major accounting principles have been partially amended. In the new Accountancy Act, those principles are nine, not seven¹¹ (Art. 26, Para.1):

¹¹ According to the Accountancy Act which was effective till 31st December 2015, the major accounting principles were current accrual; going concern; prudence; matching income and expenses; priority of content over form; retention, where

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going concern; consistency of accounting policy and comparability of accounting information; prudence; accrual basis; independence of the individual reporting periods and a value link between starting balance and closing balance; materiality; compensation; priority of content over form; the positions recognised in the financial statements are carried at their acquisition cost which might be their purchase price or cost price, or by applying another method when this is required by the applicable accounting standards.

The requirement to conduct annual inventory taking of assets and liabilities remains to ensure their reliable reporting in financial statements. Inventory taking may also be conducted by decision of the entity managers; upon request of the judicial authorities or other authorities, when this is prescribed by law. The new element in the Accountancy Act in terms of inventory taking is that entities with net sales revenue not exceeding BGN 200,000 in the current reporting period are exempt from the mandatory inventory taking of assets and liabilities (Art. 28, Para. 2). This will alleviate some of the workload for accountants if entities decide to take advantage of this provision of the law. Nevertheless, the question remains whether this would be appropriate; how it would affect the reliability of the information presented in the financial statements, and whether the interests of entity owners would be fully protected.

As for the annual financial statement, the Accountancy Act prescribes that for all entities it must consist at least of a balance sheet, a statement of income and expenses, and notes. In terms of the form, structure, and content of the full set of a financial statement, the Act makes reference to applicable accounting standards. There are exemptions for micro- and small entities regarding their annual financial statements. The Act specifies their statutory components but allows entities, upon their discretion, to prepare a full set of financial statements. The annual financial statements of sole proprietors who are not subject to statutory independent financial audit and whose sale revenue over the current reporting period is below BGN 200,000 may consist only of a statement of income and

possible, of the accounting policy from the preceding reporting period; independence of the individual reporting periods and value link between starting balance and closing balance.

expenses. According to the new Accountancy Act, this exemption will refer to a greater number of sole proprietors, as the threshold of net sales has been raised to exceed the sum of BGN 100,000, as it was in the Accountancy Act¹² which was effective till 31st December 2015.

Table 4 summarises the components required in the annual financial statements of different categories of entities in compliance with the Accountancy Act.

Table 4.

Components Required in the Annual Financial Statements by Categories of Entities

Categories of Entities	Components Required in Annual Financial Statements
Micro entities ¹³	<ul style="list-style-type: none">• Condensed balance sheet by components;• Condensed statement of income and expenses by components.
Small entities	<ul style="list-style-type: none">• Condensed balance sheet by components and groups;• Condensed statement of income and expenses by components and groups;• Notes.
Medium-sized entities and public-interest entities	<ul style="list-style-type: none">• Prepared as a full set in accordance with applicable accounting standards.
Large entities and public-interest entities	<ul style="list-style-type: none">• Prepared as a full set in accordance with applicable accounting standards;• Notes must disclose the sums accrued during the year for services provided by statutory auditors; those sums must be reported separately for independent financial audit; tax consultancies; other services not related to audit.

Consolidated financial statements shall be prepared by the parent company in compliance with the rules and requirements of the accounting standards which the company has selected as a one-off transition. The Accountancy Act exempts parent companies of small groups from the

¹² **Zakon za schetovodstvoto.** V sila ot 01.01.2002, obn. DV, br. 98/16.11.2001, posl. izm. i dop. DV, br. 100/19.11.2013, Chl. 32, Par. 3.

¹³ Except for investment companies and financial holding companies classified as micro entities (Art. 29. Para. 5).

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preparation of consolidated financial statements unless at least one public-interest entity is part of the group. The form, the structure, and the contents of consolidated financial statements shall be determined in compliance with applicable accounting standards.

II. Chapter four, Accountancy Documents, regulates the application of international and national accounting standards by categories of entities. The approach in the new Accountancy Act is totally different. The appealed Accountancy Act required all entities to apply the International Accounting Standards (IAS), and as an exception, the national ones. At present, all entities are required to apply the National Accounting Standards (NAS), except for public-interest entities which are required to apply the IAS. The Act enables all categories of entities, upon their discretion, to prepare their annual financial statements in compliance with the IAS, provided that no change has been made in the accounting basis (Art. 34, Para. 3). Those entities must then switch to applying the NAS (Art. 34, Para. 4). Art. 11 in the Transitional and Final Provisions of the new Accountancy Act specifies that large entities shall prepare their annual financial statements for the year 2016 in compliance with the IAS, and Art. 15¹⁴ in the Additional Provisions specifies the rules for the accounting standards in compliance with which public-interest entities shall prepare their financial statements. Hence:

➤ Micro, small, and medium-sized entities which in 2016 prepare and present their financial statements in compliance with the NAS, may in the next reporting period, may make a one-off transition to application of the IAS. They will not be allowed to consequently change the accounting standards they apply and switch back to the NAS (Art. 34, Para. 3);

➤ Micro, small, and medium-sized entities which in 2016 prepare and present their financial statements in compliance with the IAS, shall not be allowed to make a transition to the NAS (Art. 34, Para. 4);

➤ Large entities prepare their financial statements for 2016 in compliance with the International Accounting Standards may make a one-

¹⁴ Art.5 of the Additional Provisions of the Accountancy Act prescribes: 'Should an entity listed in Art. 1, Para. 22 in the additional provisions, cease to function as a public-interest entity, it may make a one-off transition in the first reporting period following the period in which it ceased to be a public-interest entity.'

off transition to NAS from 1st January 2017 (Art. 11 in the Transitional and Final Provisions and Art. 34, Para. 2);

➤ Public interest entities have to apply IAS in the preparation and submission of their financial statements. A one-off transition to the NAS shall be possible when the entity no longer meets the requirements to public interest entities and may be classified as a standard entity. This may be done at the end of the first reporting period following the period in which the enterprise has been treated as a public interest entity (Art. 5 of the Transitional and Final Provisions).

Table 5 summarises applicable accounting standards by categories of enterprises according to the new Accountancy Act (Art. 34 and Art. 35).

Table 5.

Applicable Accounting Standards by Categories of Entities

Entities	Applicable accounting standards
Micro entities	NAS
Small entities	NAS
Medium-sized entities	NAS
Large entities	NAS
Public-interest entities	IAS
Entities in liquidation or bankruptcy	NAS
Legal non-profit entities, regardless of their category	NAS

Consolidated and interim financial statements are prepared based on the accounting standards applied by the entity preparing those statements.

Chapter five, 'Independent Financial Audit', refers to the statutory independent financial audit which must be conducted by statutory auditors. The approach to determining the entities whose financial statements shall be subject to audit is entirely different. The new Act prescribes that statutory audit shall be conducted according to the category of the enterprise, rather than the legal form or the main business activity of the entity. Table 6 presents the categories of entities (as well as the criteria some of them have to meet) whose financial statements shall be subject to independent financial audit.

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Table 6.

Categories of Entities Subject to Independent Financial Audit

Categories of Entities	Independent Financial Audit Required
Micro entities	NO
Small entities	YES , if as of 31 st December of the current reporting period at least two of the following indicators are exceeded: <ul style="list-style-type: none"> • Carrying value of assets – BGN 2,000,000; • Net revenue from sales – BGN 4,000,000; • Average personnel – 50 people.
Medium-sized entities	YES
Large entities	YES
Public-interest entities	YES
Medium-sized and large groups and groups part of which is at least one public-interest entity	YES
Entities for which statutory audit is prescribed by law	YES
Joint-stock companies and Limited partnerships regardless of the category they belong to	YES , except for the cases these companies have not performed activities during the reporting period.
Non-profit legal entities designated to perform activities of public interest	YES , when at least one of the following criteria is exceeded in the current year: <ul style="list-style-type: none"> • Carrying value of assets as of 31st December – BGN 1,000,000; • Revenue from economic and non-economic activity in the current year – BGN 2,000,000. • Total sum of funds received in the current year and funds received in previous reporting periods but not used as of 31st December of the current year – BGN 1,000,000.
Non-profit legal entities designated to perform activities of public interest whose activities are in accordance with Art. 116 of the Family Code ¹⁵ .	YES

¹⁵ **Semeen kodeks**, Obn. DV, br. 47 ot 23 juni 2009, posl. izm. i dop. DV, br.68 ot 2 avgust 2013. <http://www.lex.bg/bg/laws/ldoc/2135637484>.

Art. 116 (1) 'Mediation in international adoption may be done by a non-profit legal person for performing activity for public benefit, called hereinafter 'accredited

The Accountancy Act prescribes the issues on which statutory auditors must express an opinion (Art. 37, Para. 6).

Chapter six, 'Publicity of Financial Statements', states the requirements for the publication of financial statements. There are minimum exemptions in this respect. Directive 2013/34/EU, the regulations of which must be transposed to the legal frameworks of EU member states, prescribes that micro and small entities shall be exempt from publishing their reports, provided that they shall be submitted to a single unit in the country and that the information presented in them shall be publicly available. As such a system has not been designed in our country so far, the Act does not exempt these categories of entities from the requirement to publish their financial statements. This exemption only refers to budget entities and sole proprietors which are not subject to statutory financial audit (Art. 38, Para. 9). According to the Act, small entities which are not subject to statutory financial audit do not have to publish their income and expenses statements or their activity reports (Art. 38, Para. 4). Hence, micro entities shall publish only a condensed balance sheet by components, in compliance with the provisions of Art. 29, Para. 4¹⁶, Art. 38, Para. 4 and Art. 3¹⁷ of the Additional Provisions of the Accountancy Act, while small entities shall only publish a condensed balance sheet by components and notes, in compliance with the provisions of Art. 29, Para.

organization', entered into the Central register under Art. 45, Para. 1 of the Law on Non-profit Legal Persons and which has received permission for this by the Minister of Justice.'

(2) 'A foreign non-profit legal person, received accreditation for mediation in the area of the international adoptions by a foreign authority, may exercise its activity in the Republic of Bulgaria only through a branch, which has received permission by the Minister of Justice for performing mediation activity with the relevant state.'

(3) The Minister of Justice shall determine by an ordinance the terms and conditions of issuing and withdrawal of permission for the activity of the accredited organizations, including of its termination.'

¹⁶ Art. 29, Para. 4 says: 'The annual financial statement of micro entities may consist only of a condensed balance sheet and condensed income and expenses statement by components.'

¹⁷ Art. 3 of the Additional Provisions says: 'Except for the exemptions provided for them by this Act, micro entities shall be treated as small entities.'

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6¹⁸ and Art. 38, Para. 4 of the Accountancy Act. Similar to the provisions of the previous Accountancy Act, joint stock companies, partnerships limited by shares, and limited liability companies will have to publish in addition to their annual financial statements the proposition of their management body and the decision of the General Meeting to allocate earnings or to cover losses incurred in previous years. Enterprises which are categorised as micro or small entities and are not public interest entities are exempt from this obligation (Art. 38, Para. 5).

A single deadline for the publication of financial statements shall be set for all entities, which is 39th June of the following year (Art. 38, Para. 1). A positive change in the new Accountancy Act is the provision of Art. 38, Para. 2, which says that when a financial statement has initially been declared to be published by 30th June but the company has been refused publication, the financial statement shall be considered duly submitted if an application for re-submission is made within 14 days of the refusal. Table 7 presents the requirements to the publication of financial statements.

Table 7.
Publication of Financial Statements

Entities	Publication of Financial Statements
All traders under the Commerce Act	Through filing with the Commercial Register.
Non-profit legal entities designated to perform activities of public interest	Through filing with the Central Register with the Ministry of Justice under the terms and conditions of the Law on Non-profit Legal Entities.
Other entities	In a business journal or on the Internet.
Micro and small entities which are not subject to statutory independent financial audit	Do not have to publish their statements of income and expenses and activity reports.
Sole proprietors	Not required to publish their financial statements if they are not subject to statutory financial audit.

Chapter seven, 'Annual reports', prescribes the requirements for the preparation of annual reports – the annual activity report; the non-

¹⁸ Art. 29, Para. 6 says: 'The annual financial statements of small entities may consist only of a condensed balance sheet, a condensed income and expenses statement by components, and notes.'

financial declaration; the report on payments to governments; and consolidated reports. The new elements here are the payments to governments report and the non-financial declaration. Table 8 presents the categories of entities and the types of reports they are required to prepare.

Table 8.

Requirements for the Preparation of Reports to the Financial Statements by Categories of Entities

Entity	Activity Report	Report on Payments to Governments	Non-financial Declaration¹⁹ (effective from 1st January 2017)
Micro entities	YES (They do not have to prepare such reports when they are not subject to statutory independent financial audit, provided that the information required by the Commerce Act regarding the acquisition of own shares has been disclosed in the note to the Annual Financial Statement or in a footnote in the balance sheet.) ²⁰	NO	May not include in the activity report non-financial information (Art. 43).
Small entities	YES (They may be exempt from preparing such reports when they are not subject to statutory independent financial audit, provided that the information required by the Commerce Act regarding the acquisition of own shares is disclosed in a footnote in the balance sheet or in the notes to the Annual Financial Statement.) ²¹	NO	May not include in the activity report non-financial information (Art. 43).

¹⁹ It contains descriptions of the policies of the entities in relation to their activities in the field of ecology, social issues and those related to the employees, human rights, anti-corruption activities, gender diversity and equality in management functions of enterprises (Art. 48).

²⁰ This exemption does not apply to investment companies and financial holding companies which are micro or small entities (Art. 42, Para. 2).

²¹ This exemption does not apply to investment companies and financial holding companies which are micro or small entities (Art. 42, Para. 2).

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Medium-sized entities	YES	NO	May not include in the activity report non-financial information (Art. 43).
Large entities	YES	YES	This is not clear from the provisions of the Act and, in our opinion, this gives rise to certain contradictions
Public-interest entities	YES – Issuers of listed securities, credit institutions, insurance and reinsurance companies include in their annual activity reports a corporate governance declaration in compliance with the Public Offering of Securities Act. (Art. 40)	YES - required from entities active in the extractive industry or the logging of primary forests, regardless of their size.	YES , if they are large entities and the average number of their employees exceeds 500 people as of 31 st December in the reporting year (Art. 41).

In Art. 53, Paragraphs 2, 3 and 4 prescribe the cases in which entities are not required to prepare a report on payments to governments. In our opinion, the provisions of Art. 53, Para. 1²² and Para. 4²³ in the Additional Provisions of the Accountancy Act are ambiguous. According to Art. 53, Para. 1, all large entities have to prepare such a report, and in the case of public-interest entities, this obligation is only applicable to entities active in the extractive industry or the logging of primary forests. At the same time, according to Para. 4 of the Additional Provisions, public-interest

²² Art. 53, Para. 1 says: 'Large entities and all Public Interest Entities active in the extractive industry or the logging of primary forests are required to prepare and publish a report on payments to governments together with their annual activity report'.

²³ Art. 4 of the Additional Provisions of the Accountancy Act says: 'For the purposes of this Act, Public Interest Entities shall be treated as large entities, except for the applicable accounting standards, regardless of the carrying value of their assets, net sales revenue, or the average number of their employees.'

entities shall be treated as large entities for the purposes of this Act, except for the applicable accounting standards. The ambiguous element here is that, on the hand, large entities which are not of public interest have to prepare a statutory report on payments to governments; on the other hand, Public Interest Entities, which should presumably be treated as large entities (in compliance with Para. 4 of the Additional Provisions), do not have to prepare such a report, unless they are active in a specific industry. Provided that these entities are treated as large enterprises, then it would be appropriate that they too would be required to prepare such a report. Perhaps it would be appropriate to give some further instructions or to clear this ambiguity in some future amendments and supplements to the Act.

As for the ambiguity and contradictions which arise in terms of the requirement that large entities which are not of public interest should prepare a non-financial declaration, there are several issues to be considered. On the one hand, according to the provisions of Art. 43²⁴ of the Accountancy Act, large enterprises which are not public interest entities **HAVE TO prepare a non-financial declaration**. These entities are not included in the category of enterprises which are exempt from that obligation. On the other hand, according to the provisions of Art. 41²⁵ of the Accountancy Act, a non-financial declaration is to be prepared only by those large enterprises which are public interest entities with an average number of employees exceeding 500 people in the reporting year. Hence, in our opinion, large enterprises which are not public interest entities **WILL NOT HAVE TO prepare a non-financial declaration**. In this aspect, there is another contradiction we could identify. According to the provisions of Art. 4²⁶ of the Additional Provisions, all public interest entities should be

²⁴ Art. 43 says: 'Micro, small, and medium-sized enterprises do not have to include in the activity report non-financial information.'

²⁵ Art. 41 of the Accountancy Act says: 'Large enterprises which are Public Interest Entities and which, as of 31st December of the reporting period, exceed the criterion for average number of employees during the financial year – 500 employees, include a non-financial declaration in their annual activity report in compliance with Art. 48.'

²⁶ Art. 4 of the Additional Provisions of the Accountancy Act says: 'For the purposes of this Act, Public Interest Entities shall be treated as large entities, except for the applicable accounting standards, regardless of the carrying value of their assets, net sales revenue, or the average number of their employees.'

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treated as large entities for the purposes of preparing a non-financial declaration. Hence, all public interest entities whose average number of employees exceeds 500 people should be required to submit such a declaration. Ultimately, it is not clear, in our opinion, whether large enterprises which are not public interest entities are required to submit a non-financial declaration with their activity report. It would be appropriate to give some further instructions or to clear this ambiguity in some future amendments and supplements to the Act.

The Accountancy Act specifies the content of reports and the non-financial declaration (see Art. 39 – Activity Report; Art. 48 – Non-Financial Declaration; Art. 54 – Report on Payments to Governments), as well as the rules and requirements for the preparation of consolidated reports (Art. 44-47, Art. 51-52, Art.58-62).

Despite the fact that the accounting of budget entities is governed by the Public Finance Act²⁷, effective from 1st January 2014, the new Accountancy Act also deals with them – chapter eight, ‘Budget entities’. The generally accepted accounting principles and regulations are also applicable to budget entities, and on specific issues, the Accountancy Act makes reference to the Public Finance Act, the acts of the Council of Ministers, and the instructions of the Minister of Finance.

Chapter nine, ‘Administrative regulations’, specifies the amount of fines and sanctions applied to entities who fail to comply with the requirements of the Act. They are bigger and specified in greater detail than the sanctions prescribed by the former Act to prevent entities from unlawful actions.

The Additional Provisions define the basic concepts used in the Act texts. Some of the definitions used in the act which was effective till 31st December 2015 have become obsolete, for example: fair value; entities applying a simplified form of financial reporting; cost price; and acquisition price.

The new act introduces definitions of new concepts – groups of entities; real service; subsidiaries; investment intermediaries; primary business activity; payments to governments; government; parent company;

²⁷ **Zakon za publichnite finansi.** Obn. v DV, br.15 ot 15.02.2013, v sila ot 01.01.2014.

entities, active in the extractive industry; entities active in the logging of primary forests; project; public-interest entities; entity managers; related entities; Government Management sector; financial holding companies; digital or other identifier. The concept of 'specialised accounting company' has been replaced with 'accounting company', and the definitions of some concepts have been partially amended.

Conclusion

There are several conclusions to be drawn as a result of our review of the Accountancy Act:

- ✓ The new Accountancy Act specifies Directive 2013/34/EU within the context of market economy in the Republic of Bulgaria;
- ✓ The new Accountancy Act assigns the managers of enterprises with more duties and responsibilities, which makes the position of chief accounting officers less influential;
- ✓ The classification of enterprises by categories which the Directive prescribes has been adopted in the new Accountancy Act without aligning it with other regulatory acts in the Republic of Bulgaria;
- ✓ The scope of the major accounting principles has been expanded;
- ✓ The new Accountancy Act prescribes more specifically which accounting standards (IAS or NAS) entities shall be required apply, which will contribute to the more reliable presentation of accounting information in the financial statements;
- ✓ Identified ambiguities and contradictions have resulted in proposals for their elimination, which will render easier the application of the Accountancy Act.

The systematic approach to the new elements in the Accountancy Act aims to streamline accounting practice and to assist accountants. The application of the new Accountancy Act will raise a number of issues and case-studies in business practice, which will inevitably lead to a variety of interpretations of the legal text. This is a prerequisite for further amendments and improvements to accounting regulations.

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